

Institutions – Instrument for Applying the Financial Mechanisms of the European Union : Based on the Program for Cross-border Cooperation between Bulgaria and Romania

Victoria Ivanova

Abstract: *The enlargement of the European community is accompanied with widening differences in the socio- economic sphere. Currently there are considerable differences in the economic development not only between distinct countries, but between different regions of one country, with respect to income per capita and job opportunities. The purpose of this paper is to reveal how institutions, built by the EU on a supranational, national and regional level, contribute to the increase of competitiveness and better participation opportunities on the international market.*

Key words: *EU, Neoinstitutionalism, Transnational cooperation*

INTRODUCTION

In its position of a supranational structure, monitoring the prosperity and integration in Europe, the European Union (EU) cooperates for Bulgaria's development as a democratic country with an open market. The support of the EU is mainly directed towards the building of acting national and regional institutions, thus ensuring the complete and effective use of funds, coming from the EU.

The following paper analyzes the economic effectiveness of acting institutions in Bulgaria, based on the Program for Cross-border cooperation between Bulgaria and Romania. Also, pointed out are some major gaps and difficulties, reducing the effective work of institutions in the new economic and political conditions.

LAYOUT

1. The Naeoinstitutional approach – analysis of the institutions' impact on the economic development in Bulgaria.

The economic cooperation between two countries is the basis for achieving of peace, stable relations and common scientific, technical and economic growth. Bulgaria and Romania as the most recent members of EU need some support in order to enter faster in the European integration process. The Neoinstitutional approach is therefore an adequate instrument for the analysis of the economic impact, which the Program for Cross-borer cooperation between Bulgaria and Romania imposes on the two countries. This approach reveals the collective impact, which acting institutions, legal restrictions, economic programs and financial agreements have on the socio-economic development of the two countries. The Neoinstitutional approach also reveals the impact of institutions on the two-sided integration process, through the restrictions and stimulus they impose.

In Table 1 are described the four main factors, forming the transaction expenditures or exchange costs, in terms of the Neoinstitutional approach. [1].

Bulgaria has to undergo considerable structural changes, ergo to make considerable expenditures for improving its institutions, in order to reach the required result in all criteria, indicated by the EU. This shows that transaction costs will be relatively high, until contracting conditions are equal or similar enough to those in the other EU countries. The reaching of equal contracting conditions is the basis for greater goods transfer, capital movement and use of services, which leads to a positive economic impact on the country.

As shown in Table 1, the second factor, influencing the cost of deals, is the size of the market and its personification. Naturally deals in Bulgaria are based on the will for profit, but despite that, still big influence on the selection of contracting partner have prior business partners, family and other relations.

Table 1. Basic factors, forming the transaction or exchange costs

№	Factors, forming the transaction or exchange costs	Action
1	Transaction costs	Transaction costs are the costs made for the execution of a certain deal – who is the contractor, what are the contract conditions, execution of the trade negotiations, making of the contract and ensuring of its execution. Transaction costs are also costs, made for protection of the intellectual property rights of the contractors. Making of a certain transaction, however, leads not only to the making of expenditures, but also to a certain income.
2	Market size, personification of the market	When there is a market personification, great role in the choice of contractor play the government, family relations, prior business contacts. When the market is not personified there is only the will for profit. This on its term leads to a rise in the amount of contracted deals.
3	Regulation and enforcement	Legal and administrative basis, acting in the country.
4	Ideology and worldview of people	This factor refers to the individuals' perception about justice and the "rules of the game".

Concerning the fourth factor- ideology and worldview of people – the tendency for selective applying of rules in Bulgaria gradually decreases. This fact is due to the permanent control imposed by Bulgarian and European institutions [2].

It can be concluded, based on the above analysis, that for the creation of working contacting rules and mechanisms on European level, Bulgaria has to undertake additional steps for the reforming of its existing institutions and regulations.

2. Institutions for managing the Cross- border cooperation between Bulgaria and Romania – instrument for improving of both countries' economies.

During the eighty years of the previous century the economic and social coherence of member countries of the EU was a priority in the integration process. The significant role of European institutions for this purpose is reflected in the Single European Act and the Maastricht Treaty. The EU created instruments, supporting the economic growth and successful European integration of underdeveloped countries [3].

Cross-border cooperation between neighbor countries in the EU is one of the basic methods for achieving of economic growth, social coherence, building of infrastructure and cultural development. Countries have different stage of development, depending on their history and their geographical position. Therefore one of the main purposes of the EU is countries, situated in detached regions, most commonly border regions, trough cooperation with each other and financed by the EU, to achieve economic growth, better standard of living, to have less unemployment rates, to be able to build modern infrastructure and keep good neighbor relations.

Table 2 shows the main levels of cross-border cooperation in the EU [4].

Bulgaria participates in the EU cross- border programs, in order to consolidate its relations with all of its neighbor countries. Until 2007 the cross-border cooperation with Romania was based on the PHARE Cross-border Program Bulgaria – Romania. After 2007 this cooperation is funded by the European Regional Development Fund (ERDF).

For the period 1999-2004 PHARE Cross-border Program Bulgaria – Romania granted €45 mln for Romania and almost equal amount for Bulgaria. All projects are co-financed by the leading country in proportion 75/25 [5].

Table 2. Basic types of cross-border cooperation

№	Level of cross-border cooperation	Scope of action
1	Cross – border cooperation	Cooperation between neighbor structures on regional and local level, on the line of a common border in all spheres of life.
2	Transnational cooperation	Cooperation between countries in concrete spheres, guided by organizations.
3	Trans-regional cooperation	Cooperation between regional and local structures, mainly in concrete sectors.

Figure 1 shows the incomings from the European Program for Cross- border Cooperation Bulgaria – Romania during the pre - accession period of Bulgaria. The amount of adopted funds during this time is comparatively small and this is mainly due to the necessity of creating of new structures and the need of introduction of new economic mechanisms. For Bulgaria and Romania this period can be considered “educational” to a certain extend. Nevertheless, Figure 1 shows that there is a tendency for an increase in the amount of adopted funds further in the years, which is an important prerequisite for greater adoption of funds in the future periods.

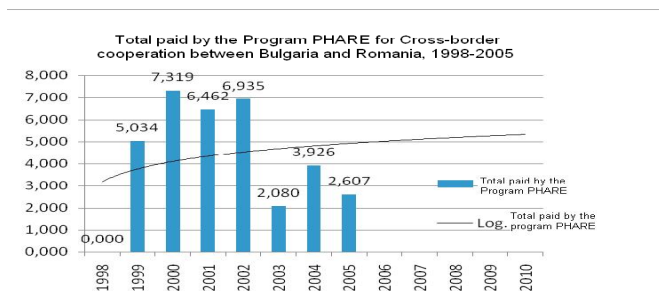


Fig. 1. Total amount of funding from the program PHARE Cross – border cooperation between Bulgaria and Romania for the period 1998-2005

In 2009 approved for funding are twenty projects, with total sum of financing from the ERDF €11 428 671, 05. For 2010 the selected projects are nineteen and the planned sum of financing - € 8 654 836,153. This data shows that the European funding for cross-border cooperation has considerably increased now, when Bulgaria is an EU member country, as compared to the period, when Bulgaria was a country with a pre-accession status. [7].

Immediately after Bulgaria started work with the pre-accession instruments of the EU, a positive trend in the economic development of the country could be seen. Figure 2 shows the change in the rate of employment and Figure 3 shows the change in GDP per capita in the three North Regions of Bulgaria, on level NUTS 2 for the period 2000-2008. Almost all municipalities in these regions - the Northwest Region, the North Central Region and the North East Region are eligible for applying for funds from the Cross- border Program between Bulgaria and Romania. For the period of about 7 years, during which Bulgaria received funding from the cross-border cooperation program, is observed a tendency for increasing of employment rates and growth of GDP per capita in the three regions. Although other economic and political processes influence this tendency too, it can be concluded that the specific character of the executed projects, directed towards the satisfying of specific needs of the region, and also the functioning national and regional institutions, played their positive role for this process [8].

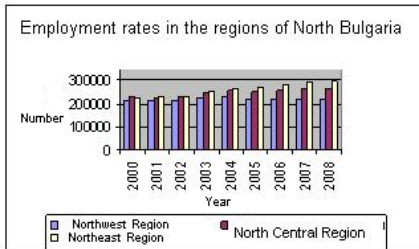


Fig. 2. Change in the number of employed in the regions of North Bulgaria for the period 2000-2008

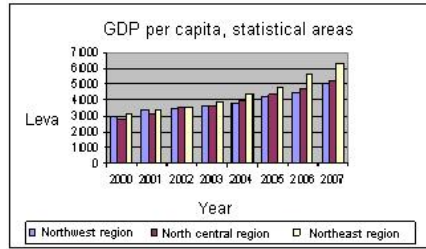


Fig. 3. Change in the GDP per capita in North Bulgaria for the period 2000-2007

Figure 4 shows the principle of management and coordination of the Program for Cross –border cooperation between Bulgaria and Romania in the period 2007-2013. The structure and management of the program resembles pyramid, where on top are situated the European managing institutions and further down are the national and regional institutions.

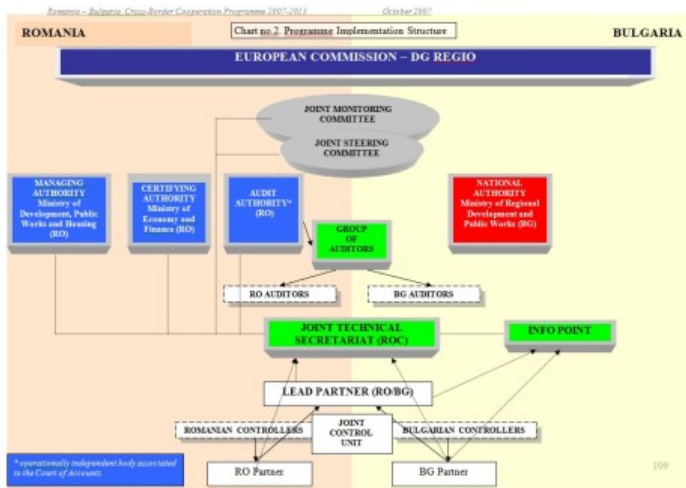


Figure 4. Structure of management of the Program for Cross –border cooperation between Bulgaria and Romania in the period 2007-2013

Increased control over the program could be observed during the pre-accession period of the countries – there was a great number of controlling institutions. This explains why the process of selection and execution of projects was too complicated and long. After Bulgaria and Romania became members of the EU, institutions, managing and controlling the cross-border cooperation between Bulgaria and Romania were simplified. This was an important prerequisite for easier and faster access to European funds.

Although there were many positive tendencies in the work of the new-built national and regional institutions for the managing of European funds, some major gaps and difficulties can be pointed out:

- Lack of information about the structure and functioning of institutions;
- There is a necessity of additional improvement of institutions;
- Felt is lack of coordination between the work of European institutions, national institutions and regional institutions;
- There is not enough compatibility between institutions at the same level in Bulgaria and Romania;
- The different economic development and the different stage of European integration, reached in Bulgaria and Romania additionally complicate the work of their institutions;
- There isn't enough coherence between the legal regulation of institutions in both countries;
- The social and cultural differences between Bulgaria and Romania play negative role in the institutions' functioning;
- Felt is lack of skilled staff, trained for work with institutions on all levels.

CONCLUSIONS

Based on the above analysis, it can be concluded that one of the most important factors for the receiving of funds from the EU is the presence of well-structured and working institutions. Bulgaria has undergone successfully through the road of a country in a pre - accession stage to a member country of the EU. During the pre-accession period started the building of national and regional institutions for work with European funds. Nevertheless there are some major gaps and difficulties in the functioning of these institutions in Bulgaria. Therefore, for the better managing of European funds, there is an urgent need of guided actions for improving the work of Bulgaria's institutions.

REFERENCES

- [1]. Williamson, O., "The Economic Institutions of Capitalism", N.Y., 1985.
- [2]. Angelov, I., „Strong and weak points of Bulgaria on the threshold of the European Union”, magazine „Economic thought”, №6, 2006.
- [3]. Shikova, I., „Regional policy of the European Union”, Economic Policy Institute, Sofia, 1999 .
- [4]. Practical guide for cross-border cooperation, European Commission, 2000.
- [5]. Ministry of Regional Development and Public Works.
- [6]. Ministry of Finance.
- [7]. Program for Cross-border Cooperation Bulgaria - Romania.
- [8]. National Statistical Institute.

ABOUT THE AUTHOR:

Victoria Ivanova – PhD Student, D. A. Tsenov Academy of Economics, International relations expert at “Centre for European Integration, International Cooperation and Mobility” at University of Ruse, tel: 082/888 650, e-mail: vivanova@uni-ruse.bg

The paper is reviewed.